



Memorandum

DATE: September 10, 2014
TO: Jorge Granados, Contract Manager
FROM: Paula Rivera, Audit Division
CC: Finance and Audit Subcommittee of the Board
Jeff Morales, CEO
Domonique Wilson, Contract Analyst
SUBJECT: Preaward Review of HSR 13-81

The Audit Division reviewed the draft agreement and cost proposal for HSR 13-81 between the California High-Speed Rail Authority (Authority) and Arcadis (Contractor) for Project and Construction Management Services for Construction Package 2-3.

The scope of the review was limited to the draft agreement and the cost proposals dated July 24 and July 31, 2014. The objectives of the review were to determine if the necessary fiscal provisions were included in the agreement and whether the proposed costs are reasonable and in compliance with the Code of Federal Regulations CFR 48, Chapter 1, Part 31 for the purpose of accepting contract progress billings. The proposed indirect rates were not audited or examined because a preaward review is significantly less in scope than an incurred cost audit or examination.

We are not able to cite that this review was performed under the Government Accountability Office's *Generally Accepted Governmental Audit Standards*, because the Authority's Audit Division has not undergone a peer review. However that does not impact compliance with other applicable elements of the attestation standards. The Authority is not yet eligible to have a peer review due to the recent formation of the Audit Division and the lack of a body of work to be reviewed.

Based on the review, except as described below, no material deficiencies were noted.

Issue 1

Proposed overhead rates are misstated, as follows:

<u>Firm</u>	<u>Proposed</u>	<u>Supported</u>
EPC Consultants	116%	93%
Falcon Engineering	131%	103%
MBI Media	241%	204%
Overland, Pacific & Cutler	161%	157%
Ramos	118%	115%
Twining	89.8%	116%
Vanguard Construction	185%	176%
VSCE	132%	128%

Recommendation: The Contract Manager should have the cost proposal revised to reflect the supported rates.

Issue 2

Proposed other direct costs rates were overstated, as follows:

<u>Category</u>	<u>Proposed</u>	<u>Supported</u>	<u>Firm</u>
Mileage	\$.58	\$.56	All
Software	20,000.00	- 0 -	Arcadis
Cell Phone	150.00	45.00	Precision Engineering
Vehicle	1,411.67	1,055.00	Arcadis
Vehicle	1,411.67	900.00	DHS Consulting
Vehicle	1,411.67	601.32	Ramos
Vehicle	1,411.67	1,100.91	Stantec Consulting

Recommendation: The Contract Manager should have the cost proposal revised to reflect the supported rates.

Issue 3

Proposed labor rates are overstated, as follows:

<u>Name</u>	<u>Proposed</u>	<u>Supported</u>	<u>Firm</u>
Greg Henk	\$ 120.00	\$ 100.00	Arcadis
Ali Sarhangian	60.20	55.29	DHS Consulting
Jacob Tabari	80.00	70.00	MNS Engineers
Garrett Hilton	50.01	45.68	MNS Engineers
Craig Caballero	52.12	48.00	MNS Engineers
Jerry Schwab	79.75	27.50	Schwab Engineering
Alex Zlotnik	70.02	43.07	Schwab Engineering
Martin Chandrawinata	60.89	59.12	The Hanna Group
David Fowler	40.45	38.45	Vali Cooper
Debra Isham	43.80	42.20	Vali Cooper
John Bonnet	40.87	35.44	Stantec Consulting
John Drury	84.14	70.33	Stantec Consulting

Recommendation: The Contract Manager should have the cost proposal revised to reflect the supported rates.

Issue 4

Two subconsultants, Lloyd Crask Consulting and Trinity Engineering Laboratories, could not support actual labor rates and overhead.

Recommendation: The Contract Manager should have the cost proposal revised to reflect the Loaded Hourly Billing Rates for Lloyd Crask Consulting and Trinity Engineering Laboratories.

Issue 5

Proposed classifications rates/ranges are overstated, as follows:

Classification	Proposed Rate/Range	Supported Rate/Range	Firm
Principal III	\$ 94.00 – 98.00	\$ 96.92	Biggs Cardosa
Principal I	70.00 – 74.00	72.69	Biggs Cardosa
Structure Rep.	40.00 – 44.00	41.83	Biggs Cardosa
Junior Engineer	16.00 – 27.00	17.00	Biggs Cardosa
Project Manager	26.00	23.50	MBI Media
Outreach Specialist	20.00	17.00	MBI Media
Graphic Designer	23.00	20.00	MBI Media
Web Designer	23.00	20.00	MBI Media
Photographer	23.00	20.00	MBI Media
Photo Assistant	20.00	17.00	MBI Media
BNSF & RR Support	70.00 – 125.00	65.00 – 106.00	Stantec Consulting
CADD Support	20.00 – 60.00	17.00 – 58.00	Stantec Consulting
Civil Support	25.00 – 95.00	25.00 – 97.00	Stantec Consulting
DB Procurement Support	70.00 – 125.00	64.00 – 119.00	Stantec Consulting
Electrical OH Support	25.00 – 95.00	29.00 – 79.00	Stantec Consulting
Environmental Support	32.00 – 75.00	33.00 – 76.00	Stantec Consulting
Hydraulics Support	25.00 – 95.00	27.00 – 94.00	Stantec Consulting
Project Controls Support	25.00 – 85.00	25.00 – 68.00	Stantec Consulting
Quality Support	40.00 – 95.00	44.00 – 84.00	Stantec Consulting
Structural Support	40.00 – 95.00	41.00 – 94.00	Stantec Consulting
Survey Support	30.00 – 50.00	29.00 – 47.00	Stantec Consulting
Syst. Integration Support	70.00 – 125.00	77.00 – 119.00	Stantec Consulting
Third Party/Utility Support	70.00 – 85.00	74.00 – 81.00	Stantec Consulting
Track Bed Support	35.00 – 125.00	49.00 – 93.00	Stantec Consulting
Traffic Support	25.00 – 75.00	22.00 – 79.00	Stantec Consulting

Recommendation: The Contract Manager should have the cost proposal revised to reflect the supported rates/ranges.

Issue 6

The draft agreement contains provisions that may be contradictory. Additionally, provisions were not included to require subcontractors to comply with the method of payment or to direct how equipment purchases are to be tracked, reported on, or disposed of.

Recommendation: The Contract Analyst should include a provision that requires subcontractors to comply with the method of payment and an equipment provision. Also, Exhibit B.1 should be revised as follows:

- A. For services satisfactorily rendered in accordance with the terms of this Agreement, and upon receipt and approval of the invoices, the Authority agrees to reimburse the Contractor for actual hours worked on an actual cost basis (direct hourly wage plus overhead and fee).
- E. Provide three (3) copies of the Invoice for Payment. Invoices shall include the Agreement Number, identification of which documents have been reviewed, the number and duration of meetings between the Authority and the Contractor, a summary of the status of any outstanding

reviews and/or deliverables, a summary of any deliverables furnished to the Authority during the invoicing period, identification of the number of hours worked by individual and classification with associated Loaded Hourly Billing Rate, and shall be submitted no more than monthly in arrears. ...

Issue 7

Proposed Loaded Hourly Billing Rates were miscalculated, as follows:

<u>Employee/Classification</u>	<u>Proposed</u>	<u>Recalculated</u>	<u>Firm</u>
Chris Mielke	\$ 114.79	\$ 144.36	BA, Inc.
Bldg/Constr Insp Gr 1	107.13	104.21	SCS&T
Bldg/Constr Insp Gr 2	103.96	101.13	SCS&T
Bldg/Constr Insp Gr 3	94.25	91.68	SCS&T
Bldg/Constr Insp Gr 4	85.98	83.63	SCS&T
Sayna Durst	112.32	106.87	VSCE

Recommendation: The Contract Manager should have the cost proposal be revised to reflect the recalculated rates.

Issue 8

Proposed employees/classifications will not be utilized.

<u>Employee/Classification</u>	<u>Firm</u>
Stephen Longoria	Arcadis
St. Structure Representative	Biggs Cardosa
Senior Project Manager	MBI Media
Bruce Webber	MNS Engineers

Recommendation: The Contract Manager should have the cost proposal revised to remove the employee/classification.

Issue 9

Proposed home office overhead rates for Stantec Consulting will not apply to this Agreement.

Recommendation: The Contract Manager should have the cost proposal revised to remove the home office overhead rates.

Issue 10

Employees/classifications subject to prevailing wage were not identified on the cost proposal with an asterisk.

Recommendation: The Contract Manager should have the cost proposal revised to identify employees/classifications subject to prevailing wage.

Mr. Jorge Granados

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The results were discussed with you and communicated to Arcadis. This report is intended for use by the Authority and the Federal Railroad Administration. However, this report is a matter of public record and its distribution is not limited.

Please forward a copy of the executed agreement to the Audit Division. If you have any questions, please contact me at (916) 403-2679.